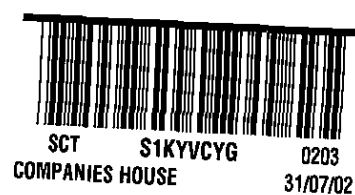


**THE TOWN HOUSE COMPANY LIMITED**

**Report and Financial Statements**

**31 October 2001**

**Deloitte & Touche  
39 George Street  
Edinburgh  
EH2 2HZ**



**REPORT AND FINANCIAL STATEMENTS 2001**

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**REPORT AND FINANCIAL STATEMENTS 2001**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Peter J Taylor  
Mhairi J Taylor  
Marco L Truffelli

**SECRETARY**

Mhairi J Taylor

**REGISTERED OFFICE**

12-16 South Learmonth Gardens  
Edinburgh  
EH4 1EZ

**BANKERS**

Bank of Scotland plc  
38 St Andrew Square  
Edinburgh  
EH2 2YR

**SOLICITORS**

Bell & Scott WS  
16 Hill Street  
Edinburgh  
EH2 3LD

**AUDITORS**

Deloitte & Touche  
39 George Street  
Edinburgh  
EH2 2HZ

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 October 2001.

**ACTIVITIES**

The principal activities of the company are hotel management and catering.

**REVIEW OF DEVELOPMENTS**

The profit for the year after taxation amounted to £210,401 (2000 - £484,147).

**DIVIDENDS**

The directors do not recommend the payment of a dividend and recommend that the profit for the year be transferred to reserves.

**FUTURE PROSPECTS**

The directors are confident of maintaining profitable operations in the future and continue to seek appropriate trading opportunities for the company.

Shortly after the year end the company updated its banking facility to more accurately reflect the long term and short term demands of the company. The result is an increased longer term element allowing the reduction of the current overdraft position and the repayment of the director's loan previously categorised as a long term liability.

**DIRECTORS AND THEIR INTERESTS**

The present membership of the board is set out on page 1.

The interests of the directors in office at 31 October 2001 and 31 October 2000 in the shares of the company were as follows:

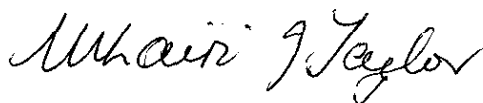
	Ordinary shares of 10p each	
	2001	2000
Peter J Taylor	999,990	999,990
Mhairi J Taylor	10	10
Simon P Williams (resigned 11 December 2001)	-	-

On 18 December 2001 Marco L Truffelli was appointed a director of the company.

**AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed by order of the Board



Secretary

2002

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE TOWN HOUSE COMPANY LIMITED**

We have audited the financial statements of The Town House Company Ltd for the year ended 31 October 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

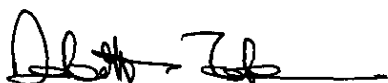
### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 October 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors

April 2002

**PROFIT AND LOSS ACCOUNT**

Year ended 31 October 2001

	Note	2001 £	2000 £
<b>TURNOVER: continuing operations</b>	2	4,231,452	4,359,695
Cost of sales		(1,558,340)	(1,571,216)
Gross profit		2,673,112	2,788,479
Administrative expenses		(2,085,553)	(1,993,758)
<b>OPERATING PROFIT: continuing operations</b>	4	587,559	794,721
Interest payable and similar charges	5	(281,071)	(321,490)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		306,488	473,231
Tax (charge)/credit on profit on ordinary activities	6	(96,087)	10,916
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>		210,401	484,147
Retained profit brought forward		2,132,616	1,648,469
Retained profit carried forward	14	2,343,017	2,132,616

**BALANCE SHEET**  
**31 October 2001**

	Note	2001 £	2000 £
<b>FIXED ASSETS</b>			
Tangible assets	7	10,700,000	10,441,363
<b>CURRENT ASSETS</b>			
Stocks	8	25,122	41,665
Debtors	9	215,562	261,808
Cash at bank and in hand		4,075	3,274
		244,759	306,747
<b>CREDITORS: amounts falling due within one year</b>	10	(2,702,608)	(1,602,900)
<b>NET CURRENT LIABILITIES</b>		(2,457,849)	(1,296,153)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		8,242,151	9,145,210
<b>CREDITORS: amounts falling due after more than one year</b>	11	(2,396,179)	(3,620,426)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	(437,994)	(341,907)
		5,407,978	5,182,877
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	100,000	100,000
Revaluation reserve	14	2,950,261	2,950,261
Other reserves	14	14,700	-
Profit and loss account	14	2,343,017	2,132,616
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>		5,407,978	5,182,877

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

2002.



Director



**CASH FLOW STATEMENT**  
**Year ended 31 October 2001**

	Note	2001 £	2000 £
Net cash inflow from operating activities	16	788,769	971,562
Returns on investments and servicing of finance			
Interest paid		(276,783)	(321,490)
Capital expenditure			
Payments to acquire tangible fixed assets		(322,071)	(291,043)
Receipts from sales of fixed assets		-	19,259
		<u>(322,071)</u>	<u>(271,784)</u>
Net cash inflow before financing		189,915	378,288
Financing			
Debt due after one year:			
Repayment of term loan		(550,000)	(576,666)
Repayment of director's loan		(10,000)	(47,135)
Repayment of hire purchase		(46,622)	(39,070)
Net cash outflow from financing	17	<u>(606,622)</u>	<u>(662,871)</u>
Decrease in cash		<u>(416,707)</u>	<u>(284,583)</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	£	£
Decrease in cash in the period	(416,707)	(284,583)
Cash outflow from decrease in debt	606,622	662,871
New hire purchase obligations	(95,505)	(29,015)
Amortisation of arrangement fee	(4,288)	-
Change in net debt	90,122	349,273
Opening net debt	<u>(4,465,683)</u>	<u>(4,814,956)</u>
Closing net debt	<u>(4,375,561)</u>	<u>(4,465,683)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 October 2001****1. ACCOUNTING POLICIES**

The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements are prepared under the historical cost convention as modified by the revaluation of heritable property.

**Fixed assets**

The company has adopted a valuation policy for heritable property. A full valuation of each property is carried out every five years by a qualified external valuer, with interim valuations after three years. Other fixed assets are carried at cost less depreciation.

**Depreciation**

No depreciation is provided on heritable property. The company follows a programme of regular refurbishment and maintenance of its heritable property, which includes the re-instatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard. The costs of refurbishment and maintenance are charged to the profit and loss account as incurred. The directors review the value of heritable property annually and provision is made for any impairment accordingly.

This policy is not in accordance with The Companies Act 1985. However, the directors consider that any depreciation arising would not be material to the company.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost of the assets over their expected useful lives as follows:

Furniture and equipment	10% per annum reducing balance
Motor vehicles	25% per annum reducing balance

**Stocks**

Stocks are stated at the lower of cost and net realisable value.

**Deferred taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

**Capitalisation of interest and wages**

Interest costs incurred in funding property under development and construction work in progress, are capitalised during the period of development. Wage costs incurred in carrying out the refurbishment of properties are capitalised into the cost of the related heritable property.

**Pension contributions**

The company operates a defined contribution pension scheme for selected employees. Contributions to the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

**2. TURNOVER**

Turnover arises wholly from the principal activities of the company from within the United Kingdom.

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 £	2000 £
<b>Directors' remuneration</b>		
Emoluments	100,221	96,121
Other benefits	9,505	7,515
Pension contributions	12,767	11,574
	<u>122,493</u>	<u>115,210</u>

Two directors participated in the company defined contribution pension scheme.

	No	No
<b>Average number of persons employed</b>	<u>164</u>	<u>153</u>
	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	1,745,483	1,605,843
Social security costs	124,486	120,525
Pension contributions	38,544	14,337
	<u>1,908,513</u>	<u>1,740,705</u>

## 4. OPERATING PROFIT

	2001 £	2000 £
<b>Operating profit is after charging:</b>		
Depreciation		
- on owned assets	141,875	132,330
- on assets under hire purchase contracts	17,064	8,818
Loss on sale of fixed assets	-	4,632
Auditors' remuneration	4,950	4,750
	<u>163,889</u>	<u>146,530</u>

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Bank overdraft	43,498	4,597
Bank loan	228,420	311,156
Hire purchase	4,865	5,737
Amortisation of arrangement fees	4,288	-
	<u>281,071</u>	<u>321,490</u>

## 6. TAX CHARGE/(CREDIT) ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
Corporation tax based on the profit for the year	-	-
Deferred taxation (note 12)	95,428	151,617
	<u>95,428</u>	<u>151,617</u>
Adjustments to prior years' tax provisions		
Deferred taxation	659	(162,533)
	<u>96,087</u>	<u>(10,916)</u>

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 7. TANGIBLE FIXED ASSETS

	Heritable Property £	Furniture & Equipment £	Motor vehicles £	Total £
<b>Cost or valuation</b>				
At 1 November 2000	9,219,125	2,040,945	42,844	11,302,914
Additions	116,058	278,260	23,258	417,576
Disposals	-	(830)	(2,100)	(2,930)
At 31 October 2001	9,335,183	2,318,375	64,002	11,717,560
<b>Accumulated depreciation</b>				
At 1 November 2000	-	823,720	37,831	861,551
Charge for the year	-	150,296	8,643	158,939
On disposals	-	(830)	(2,100)	(2,930)
At 31 October 2001	-	973,186	44,374	1,017,560
<b>Net book value</b>				
At 31 October 2001	9,335,183	1,345,189	19,628	10,700,000
At 31 October 2000	9,219,125	1,217,225	5,013	10,441,363

At 31 October 2001 the net book value of assets held under hire purchase agreements amounted to £157,041 (2000 - £71,109).

On 20 February 2002 the directors obtained an interim valuation on the properties by Ryden, Chartered Surveyors. In light of these valuations the directors have concluded that the carrying values of heritable properties are reasonable.

The previous valuation was undertaken by Ryden on 21 July 1998. All valuations of heritable properties are on the basis of the properties as fully equipped operational entities having regard to their trading potential. Notional acquisition costs included in the valuation are not material.

Comparable amounts in respect of the revalued heritable property determined according to the historical cost convention are as follows:

	Heritable Property	
	2001 £	2000 £
Cost	6,268,864	6,268,864
Additions	116,058	-
	<u>6,384,922</u>	<u>6,268,864</u>

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 8. STOCKS

	2001 £	2000 £
Food and liquor	25,122	41,665

## 9. DEBTORS

	2001 £	2000 £
Trade debtors	164,564	198,396
Prepayments and accrued income	50,998	63,412
	215,562	261,808

## 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Bank overdraft	687,420	269,912
Bank loans	553,333	550,004
Hire purchase and finance leases	45,133	28,615
Trade creditors	344,940	337,469
Payments on account	40,825	36,433
Other taxes and social security	194,978	221,682
Accruals and deferred income	138,408	158,785
Director's loan	697,571	-
	2,702,608	1,602,900

The bank loans and overdraft are secured by a first standard security and bond and floating charge over the property and assets of the company. The loans bear interest of 1.5% to 2% over bank base rate and are repayable in equal monthly instalments.

The interest free director's loan is due to be repaid in full in the short term.

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 £	2000 £
Bank loan	2,344,168	2,893,209
Hire purchase and finance leases	52,011	19,646
Director's loan	-	707,571
	<u>2,396,179</u>	<u>3,620,426</u>
	2001 £	2000 £
The term loans are repayable in instalments as follows:		
Within one year	553,333	550,004
Between one and two years	526,541	550,004
Between two and five years	960,000	1,169,867
After five years	857,627	1,177,626
	<u>2,897,501</u>	<u>3,447,501</u>
Less: unamortised costs of arranging finance	-	(4,288)
	<u>2,897,501</u>	<u>3,443,213</u>
Included in creditors falling due within one year	553,333	550,004
	<u>2,344,168</u>	<u>2,893,209</u>

## 12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation at 30%	
Balance at 1 November 2000	341,907
Provision charged to profit and loss account	
- current year	95,428
- prior year	659
	<u>437,994</u>
Balance at 31 October 2001	

The potential amounts provided and not provided are as follows:

	Provided 2001 £	Provided 2000 £	Not Provided 2001 £	Not Provided 2000 £
Capital allowances in advance of depreciation	617,320	516,743	-	(272)
Losses	(179,326)	(174,836)	-	-
Revaluation reserve	-	-	885,078	881,944
	<u>437,994</u>	<u>341,907</u>	<u>885,078</u>	<u>881,672</u>

NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 13. CALLED UP SHARE CAPITAL

	2001 £	2000 £
<b>Authorised</b>		
5,000,000 ordinary shares of 10p each	500,000	500,000
<b>Called up, allotted and fully paid</b>		
1,000,000 ordinary shares of 10p each	100,000	100,000

The company has set up an unapproved share option scheme for the benefit of its senior management and directors. The total number of options granted during the period amounted to 3,000 at an exercise price of 10p per share. The estimated benefit of granting the options at a price less than estimated market value, being £14,700, has been charged to the profit and loss account in the year and credited to other reserves. The options are exercisable twelve months from the date of the option being granted.

## 14. RECONCILIATION OF MOVEMENTS IN RESERVES

	Other Reserves £	Revaluation Reserve £	Profit and Loss Account £
At 1 November 2000	-	2,950,261	2,132,616
Profit for the year	-	-	210,401
Granting of share options (note 13)	14,700	-	-
At 31 October 2001	14,700	2,950,261	2,343,017

## 15. PENSION CONTRIBUTIONS

During the year the company paid contributions into the defined contribution pension scheme amounting to £38,544 (2000 – £14,337). At the year end pension contributions amounting to £3,328 (2000:nil) were payable to the scheme.

## 16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £	2000 £
Operating profit	587,559	794,721
Depreciation charge	158,939	141,148
Granting of share options	14,700	-
Loss on sale of assets	-	4,632
Decrease/(increase) in stock	16,543	(10,669)
Decrease in debtors	46,246	43,491
Decrease in creditors	(35,218)	(1,761)
<b>Net cash inflow from operating activities</b>	<b>788,769</b>	<b>971,562</b>



NOTES TO THE ACCOUNTS  
Year ended 31 October 2001

## 17. ANALYSIS OF CHANGES IN NET DEBT

	At 1 November 2000 £	Cash flows £	Non-cash flow changes £	At 31 October 2001 £
Cash in hand, at bank	3,274	801	-	4,075
Overdraft	(269,912)	(417,508)	-	(687,420)
	<u>(266,638)</u>	<u>(416,707)</u>	<u>-</u>	<u>(683,345)</u>
Debt due within 1 year	(550,004)	-	(700,900)	(1,250,904)
Debt due after one year	(3,600,780)	560,000	696,612	(2,344,168)
Hire purchase	(48,261)	46,622	(95,505)	(97,144)
	<u>(4,199,045)</u>	<u>606,622</u>	<u>(99,793)</u>	<u>(3,692,216)</u>
	<u>(4,465,683)</u>	<u>189,915</u>	<u>(99,793)</u>	<u>(4,375,561)</u>